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Japanese Economy Sizzles

The story is becoming familiar. Japan's economy, having long ago shaken off the effects of the soaring yen, continues its surge. Gross national product grew at an inflation-adjusted 9.3 percent annual clip between July 1 and September 30, a rate onlookers in other industrialized countries like the United States can only envy. The April-June quarter's dip of 3.3 percent annualized clearly was revealed as a statistical aberration. The latest figures were enough to put the summer quarter 5.6 percent ahead of the year-earlier pace, maintaining a pattern of roughly constant year-to-year expansion in the face of fluctuating quarterly growth rates.

The star of the show continued to be plant and equipment investment. Japanese firms, confident that they have escaped the dragons of inflation and exchange rate appreciation, continue to modernize and expand their facilities at a dizzying pace. Such investment surged at a real annualized rate of 18.6 percent in the quarter and contributed 0.9 percentage point to the overall

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1986	FY 1987	October-December 1987	January-March 1988	April-June 1988	July-September 1988
Gross National Product	Y301,833.8 (2.7%)	Y317,589.4 (5.2%)	Y319,940.4 (7.1%)	Y327,750.6 (10.1%)	Y324,982.8 (-3.3%)	Y332,284.6 (9.3%)
Personal Consumption Spending	168,933.2 (3.4%)	176,575.8 (4.5%)	176,966.2 (3.8%)	180,839.0 (9.0%)	182,010.8 (2.6%)	184,581.3 (5.8%)
Private Residential Construction	15,634.1 (11.0%)	19,631.1 (25.6%)	21,144.4 (55.1%)	21,541.1 (7.7%)	19,682.3 (-30.3%)	20,874.8 (26.5%)
Private Fixed Nonresidential Investment	56,213.6 (4.3%)	61,812.5 (10.0%)	62,602.3 (15.7%)	65,130.8 (17.2%)	68,143.0 (19.8%)	71,116.1 (18.6%)
Change in Business Inventories	1,024.4 (*)	1,274.0 (*)	1,667.2 (*)	1,438.7 (*)	2,043.0 (*)	1,799.1 (*)
Government Current Expenditures	28,882.7 (6.3%)	28,637.2 (-0.9%)	28,570.8 (0.7%)	28,835.0 (3.8%)	28,990.9 (2.2%)	29,175.9 (2.6%)
Government Fixed Investment	22,247.0 (7.0%)	24,466.8 (10.0%)	24,825.7 (24.2%)	25,809.5 (16.8%)	25,189.5 (-9.3)	24,735.9 (-7.0%)
Change in Government Inventories	856.4 (*)	45.3 (*)	-185.2 (*)	415.9 (*)	119.5 (*)	-225.9 (*)
Net External Sector	8,042.4 (-34.5%)	5,146.7 (-36.0%)	4,349.0 (-83.5%)	3,740.6 (-45.3%)	-1,196.2 (-99.0%)	227.4 (*)
Exports of Goods and Services and Factor Income Received	52,692.8 (-3.6%)	55,415.8 (5.2%)	55,666.1 (-1.4%)	57,573.7 (14.4%)	55,377.6 (-14.4%)	60,372.4 (41.3%)
Imports of Goods and Services and Factor Income Paid	44,650.5 (5.4%)	50,269.1 (12.6%)	51,317.1 (19.9%)	53,833.1 (21.1%)	56,573.8 (22.0%)	60,145.0 (27.7%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

quarterly growth rate of 2.2 percent. Investment was up 11.8 percent over the same quarter a year earlier, which itself had climbed 8.8 percent over July-September 1986. Such spending not only boosts the GNP growth rate when it occurs but assists in suppressing inflation and maintaining international competitiveness by making firms and the economy generally more productive, which raises GNP over the long term.

Some sectors, however, seem to have switched roles for the July-September quarter's performance, with exports the most obvious example. For most of the past two years, exports either declined or stayed constant on a quarter-to-quarter basis. In the latest GNP report, by contrast, overseas shipments were among the strongest performers, jumping at a 41.3 percent annual rate and contributing 1.5 percentage points to the overall quarterly growth rate. Had exports stayed constant and other factors remained equal, Japan's annualized growth rate would have been only 2.8 percent rather than the actual rate of 9.3 percent.

Staying closer to their recent role, imports continued to surge, thereby shaving 1.1 percentage points off the overall growth rate. Taking exports and imports together, the effect was to boost the quarterly growth rate 0.4 percentage point, the largest contribution since the first quarter of 1987.

Government spending, a source of growth in the economy during most of the past two years, declined for the second quarter in a row. A cut in government investment, which in 1987 benefitted from a major fiscal expansion package, more than offset a modest increase in current expenditures.

Private residential construction rebounded from the precipitous drop it had shown last spring but not enough to recover to the levels that prevailed late last year, lending credence to experts who see housing starts at a plateau. Personal consumer spending, the largest component of the economy, grew at a slower rate than the overall average. The consumer, who has received generous credit for keeping Japan's expansion on track, is in fact playing a passive role, increasing spending roughly in step with income gains (see JEI Report No. 45A, December 2, 1988).

Few economists anticipate a pickup in inflation, even though that might normally be expected considering the strength of demand. Rising imports, the yen's renewed strength and still low oil prices all have helped keep consumer price increases to barely 1 percent per year despite the high GNP growth rate.

For the immediate future, at least, experts expect economic growth to continue. At the midpoint of Japan's 1988 fiscal year, Tokyo's outlook for 3.8 percent real growth for the year ending March 31, 1989 is within easy reach. So despite some characters playing unaccustomed roles, the overall performance of the Japanese economy continues to dazzle.

Douglas Ostrom

Tokyo Urged To Continue Administrative Reform

The Ad Hoc Administrative Reform Promotion Council has recommended to Prime Minister Noboru Takeshita that the government promote gradual deregulation of politically sensitive areas, such as the sale of rice in Japan. The